

04-267

USAID Grant No.278-005-00

AMENDMENT NO. 8

TO

GRANT AGREEMENT

BETWEEN

THE HASHEMITE KINGDOM OF JORDAN

AND

THE UNITED STATES OF AMERICA

FOR THE

INCREASED ECONOMIC OPPORTUNITIES FOR JORDANIANS

STRATEGIC OBJECTIVE

DATED: 30 AUG 1999

Certified Conformed copy of
Agreement signed on August 30, 99

APPN:
BPC :
RCN :

FUNDS AVAILABLE FOR	
ADM. RES. <input type="checkbox"/>	OBLIGATION <input checked="" type="checkbox"/>
EM. RES. / EM. <input type="checkbox"/>	COMM. RES / COMM. <input type="checkbox"/>
ACTION TAKEN BY <i>BD</i> DATE <i>8/30/99</i>	
APPROPRIATION: <i>729/11037</i>	
BPC: <i>11ES9-99-23278-16-31</i>	
RCN / ECN: <i>A990107</i>	

Jonathan Addleton
Jonathan Addleton
Director, Office of Program Mgt.

AMENDMENT NO. 8

TO

STRATEGIC OBJECTIVE GRANT AGREEMENT

BETWEEN The Hashemite Kingdom of Jordan (Grantee or GOJ), acting through the Ministry of Planning, and the United States of America, acting through the United States Agency for International Development (USAID).

WHEREAS, on June 26, 1997, the Grantee and USAID (Parties) entered into a Grant Agreement for the Increased Economic Opportunities for Jordanians Strategic Objective (Agreement) whereby USAID granted to the Grantee Four Million Eight Hundred and Seventy-Three Thousand Eight Hundred and Eighty-Three United States (U.S.) Dollars (U.S. \$4,873,883) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on August 26, 1997, the Parties amended the Agreement to, among other things, add an additional Intermediate Result within the Strategic Objective and provide additional USAID grant funding of Fifty Million U.S. Dollars (U.S.\$50,000,000) in the form of a cash transfer to help achieve the Strategic Objective; and

WHEREAS, on February 5, 1998, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Two Million U.S. Dollars (U.S.\$2,000,000) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on June 9, 1998, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Thirteen Million Five Hundred and Eighty Nine Thousand Four Hundred and Eleven U.S. Dollars (U.S.\$13,589,411) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on August 10, 1998, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Four Million Three Hundred and Thirty Nine Thousand and Thirty Three U.S. Dollars (U.S. \$4,339,033) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on August 10, 1998, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Fifty Million U.S. Dollars (U.S.\$50,000,000) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on June 30, 1999, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Twenty Four Million Seven Hundred Forty Nine Thousand Four Hundred Fifty U.S. Dollars (U.S.\$24,749,450) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on June 30, 1999, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Fifty Million U.S. Dollars (U.S.\$50,000,000) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, the parties now wish to amend the Agreement to provide additional USAID grant funding of fifty million United States dollars (\$50,000,000) to further help achieve the Strategic Objective;

NOW THEREFORE, the Parties hereby agree to amend the Agreement as follows:

1. **Article 3: Contributions of the Parties, Section 3.1. USAID Contribution, Subsection (a) The Grant,** is amended by deleting the amount of "One Hundred Ninety Nine Million Five Hundred and Fifty One Thousand Seven Hundred and Seventy Seven United States Dollars (U.S. \$199,551,777)" and replacing it with the sum "Two Hundred Forty Nine Million Five Hundred and Fifty One Thousand Seven Hundred and Seventy Seven United States Dollars (U.S. \$249,551,777)."
2. **Article 3: Contributions of the Parties, Section 3.1. USAID Contribution, Subsection (b) Total Estimated USAID Contribution,** is amended by deleting the amount of "Three Hundred and Twenty Five Million United States Dollars (U.S. \$325,000,000)" and replacing it with the sum "Four Hundred

Million United States Dollars (U.S. \$400,000,000)." This change is also shown in Annex 1, Attachment 1 to this Amendment.

3. Article 5: Conditions Precedent to Disbursement is hereby deleted and replaced with a new Article 5 as follows:

"Article 5: Conditions Precedent to Disbursement

Section 5.1. FY 1999 Cash Transfer, Second Tranche General Conditions Precedent

Prior to disbursement of the cash transfer of Fifty Million United States Dollars envisaged under Amendment No. 8 of this Agreement (hereinafter referred to as "cash transfer"), or prior to the issuance by USAID of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to USAID, in form and substance satisfactory to USAID, evidence that the Grantee has established the Separate Dollar Account described in Article 8 of this Agreement, together with the Grantee's certification that such bank account has been established and will be maintained as required by this Agreement and/or subsequent Implementation Letters ("ILs").

Section 5.2. FY 1999 Cash Transfer, Second Tranche Policy Reform Conditions Precedent

Prior to the disbursement of the cash transfer, or prior to the issuance by USAID of documentation pursuant to which such disbursement will be made, the Grantee shall, except as the Parties may otherwise agree in writing, meet the following policy reform and related Conditions Precedent and furnish to USAID, in form and substance satisfactory to USAID, evidence of the following actions:

Subsection 5.2.1. Streamlined Foreign/Domestic Investment Policies and Procedures

The GOJ shall initiate implementation of the Action Plan to shift the primary role of the Investment Promotion Corporation (IPC) from undertaking regulatory and administrative activities to one of investment promotion and facilitation.

Subsection 5.2.2. Full Protection and Enforcement of Intellectual Property Rights (IPR)

The GOJ shall submit to the Cabinet of Ministers for approval the following draft legal measures to conform to the WTO agreements on TRIPS: (a) amendments to the law on Trademarks; (b)

a new Law on Patents. In addition, a new Law on Industrial Design and Utility Models shall be approved by the Ministry of Industry and Trade.

Subsection 5.2.3. Prudential and Efficient Financial Intermediation

(a) The Central Bank of Jordan (CBJ) shall present to USAID written confirmation that capital adequacy ratios consistent with Basel Agreements are met by banks accounting for at least 50% of Jordanian bank assets.

(b) The CBJ shall present to USAID written evidence that CBJ has signed a contract with a provider of software, training and technical assistance to further develop and implement the leading economic indicator techniques it has begun to develop with donor technical assistance.

Subsection 5.2.4. Policies Conducive to Development of Sustainable Microfinance Savings and Credit System

The Ministry of Planning shall submit to the Cabinet of Ministers a draft Action Plan, in form and substance acceptable to USAID, to remove or reduce key policy and regulatory constraints to microfinance in Jordan, as identified in the USAID-Funded Constraints Analysis.

Subsection 5.2.5. Efficient and Well-Regulated Capital Markets

(a) The Jordan Securities Commission (JSC) will issue the first set of by-laws and regulations for proper regulation/self-regulation of securities markets.

(b) The Grantee will present to USAID, written evidence obtained from the Jordanian Association of Certified Public Accountants, through the Audit Bureau, that the Association is a self-regulating, private professional organization and is exerting its best efforts, within the limits of the law governing the Association, to ensure that its members implement international auditing standards in Jordan.

Subsection 5.2.6. A Sound Credit Information System

The Legal Advisor of the Ministry of Industry and Trade/Investment Promotion Corporation (IPC), and/or other relevant legal authority, shall formally present to USAID, through the Ministry of Planning, a legal opinion, in English, detailing the legal and regulatory barriers (if any) to the establishment of a privately owned and operated Credit Information Bureau in Jordan.

Subsection 5.2.7. Privatization of State-Owned Enterprises (SOEs)

(1) A contract has been signed with a world class investment banking firm with extensive telecom privatization experience to:
(a) present viable options for privatizing the Jordan Telecommunications Company (JTC), and upon GOJ adoption of one or more of these options, (b) to assist the GOJ in completing privatization of JTC;

(2) The GOJ shall publicly announce a date for privatizing a substantial part of JTC and which option(s) have been chosen;

(3) The GOJ shall present to USAID a letter from the Telecommunications Regulatory Commission (TRC) affirming that the Jordan's Telecommunications Corporation's (JTC's) fixed line monopoly will not be extended beyond December 31, 2002 unless an extension until no later than December 31, 2003 is required in order to privatize JTC as confirmed by the TRC;

(4) The Financial Advisory Group shall present to the Royal Jordanian(RJ) Restructuring and Privatization Executive Committee its Financial Restructuring Report for the privatization of RJ Airline;

(5) The RJ Restructuring and Privatization Executive Committee shall submit a request to the Higher Cabinet Committee for the Restructuring and Privatization of Royal Jordanian to revoke Alia/RJ Law 10/69;

(6) A Memorandum from the Prime Minister to the RJ Restructuring and Privatization Executive Committee has been issued, which instructs the Committee to proceed with all steps necessary to prepare RJ Airline for privatization, with a clear intent to divest at least thirty percent of RJ shares to a Strategic Partner;

(7) The Higher Cabinet Committee for the Restructuring and Privatization of Royal Jordanian will inform USAID in writing that it has made a Decision to issue and distribute to potential investors an Information Memorandum for the privatization of the Royal Jordanian Operating Subsidiary (RJOS). The Decision will specify a date in 1999 for issuance of the Information Memorandum.

Subsection 5.2.8. Improved Fiscal Management and Budget Rationalization to Enhance Public Sector Efficiency

(a) The Master Plan to improve Government of Jordan (GOJ) budget systems, as developed with GTZ, World Bank and UNDP

assistance, will be completed and presented to Cabinet for approval.

(b) The GOJ shall submit to USAID an Action Plan and specific timetable for introducing a Second Stage Sales/VAT tax.

Section 5.3. Notification

USAID will promptly notify the Grantee in writing when USAID has determined that a condition precedent has been met.

Section 5.4. Terminal Date for Conditions Precedent

If all the conditions specified in Sections 5.1 and 5.2 of this Agreement have not been met within ninety days from the date of the execution of Amendment No. 8 to this Agreement, or such later date as USAID may agree to in writing, USAID, at its option, may terminate this Agreement by written notice to the Grantee.

4. **Article 8: General Terms and Conditions Relating to Use of the Cash Transfer, Section 8.1, Use of the Cash Transfer,** is hereby amended as follows:

The opening clause of paragraph (a) is hereby deleted and replaced in its entirety with the following: "The cash transfers provided under Amendment Numbers 7 and 8 to this Agreement shall be utilized by the Grantee to cover payments and/or reimbursements for payments made during the period from October 1, 1998 or after (as the cash transfer provided under Amendment No. 1 to this Agreement was utilized by the Grantee to cover payments and/or reimbursements for payment during the period from January 1, 1997 or after, and as the cash transfer provided under Amendment No. 5 to this Agreement was utilized by the Grantee to cover payments and/or reimbursements for payment during the period from January 1, 1998 or after), in the following categories, in order of precedence:"

5. **Article 9: General Terms and Conditions Relating to the Local Currency Account associated with the Cash Transfer, Section 9.2, Deposit into the Local Currency Account,** is hereby amended by adding the following sentence at the end of subsection 9.2(e):

"No local currency deposit is required in connection with the Second Tranche of the FY.1999 cash transfer under Amendment No. 8 to the Agreement."

6. Article 11: Covenants, shall be amended to include a new Section 11.5 as follows:

Section 11.5. Covenants Related to the FY 1999 Cash Transfer

The Grantee undertakes to maintain and sustain the policy, reform and related actions referenced in Section 5.2 of this Agreement. In addition, the Grantee undertakes to adhere to the specific Covenants stated below.

Subsection 11.5.1. Streamlined Customs Procedures

Before September 30, 1999, the Ministry of Finance shall submit to the Cabinet of Ministers for approval draft amendments to the Customs Law which will ensure that it conforms with WTO agreements on Customs valuation, rules of origin, TRIPS and GATT 1994.

Subsection 11.5.2. Streamlined Foreign/Domestic Investment Policies and Procedures

(a) The Investment Promotion Corporation (IPC) will exert its best efforts to achieve by December 31, 1999, a target of a 15% increase over the number of IPC-facilitated foreign and domestic investments.

(b) Before September 30, 1999 the GOJ will present to USAID details of its Action Plan that will, by June 30, 2000, bring all Jordanian investment laws, regulations and practices in compliance with common international standards and best practices. Toward that end, the GOJ further covenants that:

(1) By June 30, 2000, the GOJ will enact measures that will reduce the registration time for companies to less than two days;

(2) By June 30, 2000, the GOJ shall streamline environmental and product quality standards by establishing, or where already established, publicizing, transparent industrial and environmental codes and a legal framework capable of enforcing them.

(3) By September 30, 1999 the GOJ shall present USAID with a specific date after which: (a) work permits requested by investors will be automatically issued up to a set number or ratio; and (b) screening procedures for remaining work permits will be substantially streamlined.

(4) By December 31, 1999, the standard length of work permits for skilled and professional expatriates (i.e., excluding unskilled agricultural, construction, domestic workers, etc.) shall be extended from one year to three years (or, alternatively, one-year permits presently used will be made *routinely and quickly* renewable for up to three years unless compelling reasons to deny renewal arise, e.g., serious violation of law or similar misconduct).

(5) By November 30, 1999 the Investment Promotion Corporation (IPC) shall present to USAID a proposal and timetable for abolishing the sectoral licensing requirement for all investments, except those included on a short new "negative list" (for example, banking and mining).

(6) By December 31, 1999 the GOJ shall present to USAID documentary evidence that the necessary laws and regulations have been passed which make privately owned and managed industrial and tourism estates and parks legal.

(7) By December 31, 1999, the GOJ will present USAID with a written plan and timetable for introducing mechanisms that will substantially speed, and streamline the process whereby investors can gain access to land for investment purposes (for example, improving the long-term leasing system, granting easements, etc.), including land under the jurisdictions of the regional authorities such as the Jordan Valley Authority.

(8) By December 31, 1999, the GOJ will present USAID an action plan and timetable for (a) reducing the number of inspections in site development, (b) unifying all inspections in a new, or existing Inspection Center and (c) establishing general, uniform, and transparent rules and standards for site development.

Subsection 11.5.3. Full Protection and Enforcement of Intellectual Property Rights (IPR)

(a) Before November 1, 1999 the GOJ shall submit to Parliament both of the following draft legal measures to conform to the WTO agreement on TRIPS: (1) Amendments to the Law on Copyrights and (2) Amendments to the Law on Standards and Metrology that conform to the Technical Barriers to Trade Agreement (TBT).

(b) Before March 1, 2000, the GOJ shall submit to Parliament the following three draft legal measures to conform to the WTO agreements on TRIPS: (1) a new Law on Plant Variety Protection; (2) a new Law on Integrated Circuits; (3) a new Law on Trade Secrets.

(c) The GOJ shall introduce a policy of Bone Fide registrations for trademarks, patents and industrial designs, where those are already registered elsewhere. By September 30, 1999 the GOJ will present USAID with written confirmation of that policy, including a specified effective date for implementation of the policy.

Subsection 11.5.4. Accession to the World Trade Organization (WTO)

Before October 31, 1999, the GOJ shall conduct with each of three countries at least two rounds of bilateral negotiations. (For purposes of this condition, the European Union counts as one country)

Subsection 11.5.5. Further Rationalization of the Tariff Structure

(a) The Second stage of sales tax/VAT shall be included in the Fiscal Year 2001 budget, that will be submitted in December 2000.

(b) Before December 31, 1999 the GOJ shall legally establish a new Sales Tax Department that is financially and operationally independent of the Customs Department.

(c) Before March 31, 2000, the Ministry of Finance shall submit to Cabinet an enabling draft Law that will authorize the implementation of a Second Stage Sales Tax/VAT.

(d) The GOJ shall provide budget support to the new Sales Tax Department adequate to ensure that the Department is sufficiently well funded to attract and retain quality staff and to procure and/or provide the required equipment.

Subsection 11.5.6. Policies Conducive to Development of Sustainable Microfinance Savings and Credit System

(a) Before December 31, 1999, the GOJ shall present written documentation to USAID that the Ministry of Industry and Trade (MIT) has modified the Companies Law so that a "letter of no objection" from the Central Bank of Jordan to the Ministry is a requirement for approving registration of profit or non profit companies providing credit but not taking deposits.

(b) Before September 30, 1999, the Central Bank of Jordan shall present to USAID, through the Ministry of Planning, written assurance that all lending officers are aware that since 1990 there has been no interest rate ceiling for lending rates in Jordan.

(c) Before September 30, 1999, the Ministry of Justice will inform USAID in writing of the steps it intends to take to reduce the burden on small lenders (loans of JD 300 or less), of legal and court costs associated with Article (6) of Supplementary Execution Law No. 25 of 1965 (for example, granting more authority to Execution Officers to settle such claims).

Subsection 11.5.7. Efficient and Well-Regulated Capital Markets

(a) Before September 30, 1999, the Cabinet of Ministers will issue a by-law clarifying that Part Seven, Article 193 (b) of Companies Law 22 of 1997 should be interpreted to mean, "To audit its account in accordance with internationally recognized audit rules, auditing professional principles and scientific and technical practices."

(b) Before September 30, 1999, the Jordan Securities Commission, through the Ministry of Planning, will provide USAID with written assurance that a fully automated Amman Stock Exchange (ASE) trading system and a Central Depository System will both be fully operational before December 31, 1999.

Subsection 11.5.8. Privatization of State-Owned Enterprises

(a) If the GOJ fails to privatize at least 40 percent of the shares of JTC before December 31, 1999 it shall issue licenses on an openly competitive basis to one or more new, privately-owned and operated, non-JTC cellular mobile and/or wireless local loop (WLL) telecom service providers to be in service no later than January 1, 2001.

(b) The GOJ will initiate the Bid Process and negotiations for privatization of Royal Jordanian Airlines before March 31, 2000.

Subsection 11.5.9. Increased Role of Private Sector in Infrastructure Projects and Management Contracts

(a) Before June 30, 2000, the GOJ will provide USAID with written documentation that an effective economic reform public awareness (or communications) program is established and operational.

(b) Before December 31, 1999, the Ministry of Water and Irrigation will present to USAID an Action Plan with steps identified to proceed with at least one BOO/BOT/BOOT agreement in the water sector.

Subsection 11.5.10. Improved Fiscal Management and Budget Rationalization to Enhance Public Sector Efficiency

(a) The GOJ will begin implementation of the Performance-Based Budgeting Master Plan on or before January 1, 2000;

(b) By September 30, 1999, the Income Tax Department will submit to USAID a written explanation and interpretation of item number 7 of the Income Tax Procedures of 1996 and the Income Tax Law 57 of 1985 as they concern the use of internationally recognized best practice accounting and audit standards for the taxation of companies;

(c) Beginning in FY 1999, the GOJ will ensure that the Department of Statistics is annually funded at a level sufficient for it to maintain a performance level consistent with international best practices in gathering, analyzing and disseminating data.

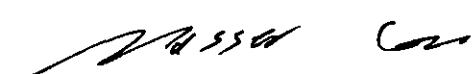
7. Annex 1 to the Agreement is deleted and hereby replaced with the revised Annex 1 attached hereto.

8. Except as amended herein, the Agreement, as previously amended, remains in full force and effect.

IN WITNESS WHEREOF, the Parties, each acting through their duly authorized representative(s), have caused this Amendment to be signed in their names and delivered as of the day and year first Above written.

THE HASHEMITE KINGDOM OF JORDAN THE UNITED STATES OF AMERICA

BY:


H.E. Mr. Naser Lozi

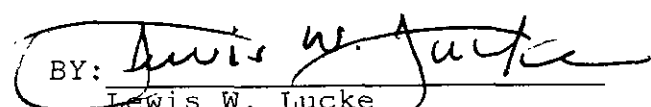
BY:


William J. Burns

TITLE: Acting Minister of Planning

TITLE: U.S. Ambassador

BY:


Lewis W. Lucke

TITLE: Mission Director
USAID/Jordan

**INCREASED ECONOMIC OPPORTUNITIES FOR JORDANIANS
STRATEGIC OBJECTIVE**

AMPLIFIED DESCRIPTION

1. INTRODUCTION

This Annex describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms of the Agreement.

II. BACKGROUND

Deteriorating growth rates pose a new challenge to Jordan's attempts to provide adequate economic opportunities for the majority of its citizens. At least 42,000 new jobs need to be created each year to absorb new workers entering the labor market--and another 8,000 more jobs to begin to reduce the country's unacceptably high unemployment rate, optimistically estimated at 15 percent. The World Bank estimates that in 1995 GNP per capita for Jordan's 4.2 million citizens was on the order of \$1,500, placing Jordan in its lower-middle income country group. With the natural population growth rate now estimated at 2.6 percent per year, significant economic growth must occur in Jordan for per capita income to increase, or even to remain steady.

Jordan is poor in natural resources. Only 8 percent of its land is arable, much of it concentrated in the Jordan Valley, which cannot hope to provide a basis for broad-based economic growth for the entire country. Remittances from overseas workers and tourism remain the major two sources of foreign exchange. While phosphate and potash mined from the Dead Sea are important exports earning valuable foreign exchange, they too offer limited growth potential. Given these constraints, economic growth, particularly from exports, must come from a diversification of Jordan's economy and increased utilization of its educated and well-trained work force.

To that end, the Government of Jordan (GOJ) initiated a series of IMF and World Bank-supported economic reforms to liberalize trade and investment policies. Recent economic developments have been discouraging, with economic growth estimated at only 1.3 percent in 1997 and 2.2 percent in 1998. Nonetheless, the GOJ is continuing to pursue policies and programs designed to liberalize its economy in order to promote economic growth through increased savings and greater investment. The GOJ hopes that these actions will contribute to a lowered unemployment rate and increased per capita incomes.

III. STRATEGIC OBJECTIVE AND INTERMEDIATE RESULTS TO ACHIEVE THE STRATEGIC OBJECTIVE

A. The Strategic Objective: The Strategic Objective is to increase economic opportunities for Jordanians.

The Strategic Objective aims at promoting market-based economic growth and restructuring in Jordan. It also represents a direct response to concerns that the benefits of economic restructuring are spread unevenly and fail to benefit poorer segments of the population. Only by reaching-out to groups that by and large have not yet benefited from the reform process--for example, micro- and small business people, the poor, women, youth, and residents of more isolated areas of the country--will Jordan be able to maintain the momentum of its reform efforts, sustain its economic restructuring program and insure that the benefits of economic growth are widely shared.

This formulation underscores the fact that individual Jordanians are to be the main beneficiaries, especially those who heretofore have failed to benefit from the economic restructuring process. USAID activities under this Strategic Objective support the goal of encouraging "broad-based economic growth" by expanding access and opportunities through financial services and by encouraging more effective implementation of policy reforms that benefit entrepreneurs, including women and youth, as well as facilitating the creation of an improved environment which will allow for sustainable policy reforms.

Other development partners are addressing a range of constraints to increasing economic opportunities. The lead partner is the World Bank with its proposed Economic Reform and Development Loan III (ERDL III) and its support, along with other donors, for Jordan's Social Productivity Program (SPP). This Strategic Objective targets activities which ultimately increase the number of private companies registered, promote greater access to credit on the part of micro entrepreneurs, expand the number of micro- and small entrepreneurs utilizing the commercial banking system, and increase the number of jobs and the amount of investments facilitated through the Investment Promotion Corporation (IPC). The Strategic Objective will be achieved by improving access to business and financial services and by more effective policy reform and implementation, including in those areas that potentially benefit micro- and small-enterprises. Its achievement will also be predicated on an improved policy environment which actually encourages economic development.

The Strategic Objective is the overall or ultimate result that USAID and the GOJ intend to achieve in this Agreement. Key indicators for measuring attainment of the Strategic Objective are as follows or as further agreed upon in writing by the parties:

- 5.1 Percentage increase in number of companies registered.
- 5.2 Number of micro- and small-entrepreneurs utilizing the commercial banking system.
- 5.3 Number of jobs created by companies benefiting from Investment Promotion Corporation incentives.

The Intermediate Results (described below) are the key results which must occur in order to achieve the Strategic Objective.

B. Intermediate Results (IRs) : The Strategic Objective for this Agreement will be accomplished through the achievement of three Intermediate Results, as follows:

5.1 Increased Access to Business and Services

The indicators in determining progress toward achieving IR 5.1 include:

- 5.1.1 Increased number of borrowers obtaining micro and small-enterprise credit;
- 5.1.2 Percentage of repeat borrowers for USAID-supported microenterprise finance;
- 5.1.3 Number of jobs saved and/or generated by USAID-supported Business Service Center Clients (BSCs);
- 5.1.4 Client ratings of business and consulting services in USAID-supported BSCs.

5.2 More Effective Identification and Implementation of Policy Reform

The indicators in determining progress toward achieving IR 5.2 include:

- 5.2.1 Level of entrepreneurs awareness of key economic policy reforms;
- 5.2.2 Level of foreign direct and domestic investments facilitated to the Investment Promotion Corporation (IPC);
- 5.2.3 Customs clearance times for imports.

5.3 Improved Environment for Sustained Policy Reform

The indicators in determining progress toward achieving IR 5.3 include:

- 5.3.1 Index of Economic Freedom (IEF) Composite Score;
- 5.3.2 "Oracle" expert assessment of progress in economic reform;
- 5.3.3 Progress toward accession to the World Trade Organization;
- 5.3.4 Progress toward further rationalization of the tariff structure;

5.3.5 Progress toward efficient and well-regulated capital markets.

5.3.6 Progress toward privatization of state-owned enterprises (SOEs)

C. Details on Indicators: Details on the indicators set forth above may be further agreed upon or revised in accordance with Article 2 and Section 7.2 of the Grant Agreement for the Strategic Objective ("SOAG") of which this Annex 1 is an integral part. For all purposes of the SOAG, including Article 2 and Section 7.2, indicators may include baselines and targets for measuring or achieving performance.

IV. ILLUSTRATIVE USAID-FUNDED ACTIVITIES

The Parties agree to finance activities covering three Intermediate Results needed to achieve the Mission's broader Strategic Objective. The proposed activities will be selected from among those described below, or others agreed upon by the parties:

A. Increased Access to Business Services (IR 5.1):

The central theme of this IR is to increase the productivity and competitiveness of Jordan's small, medium, and micro enterprises by promoting entrepreneurship and improving access to finance, technology, markets, and modern management techniques.

1. *Sharing Microfinance Best Practices:* The goal will be to develop and strengthen the working knowledge of Jordanian NGOs (including, for all purposes of this Agreement, PVOs) about microfinance best practice. This activity will actively pursue and support local institutions to effectively apply and benefit from using best practice in a Jordanian context. These "best practices" will be introduced to a range of NGOs active in Jordan, and will serve to improve existing or new techniques as well as to identify potential candidates for more intensive technical assistance in a later phase. Both technical assistance and training is envisaged as part of this effort. The ultimate aim is to develop and expand microenterprise skills and capabilities among individuals and institutions in Jordan.

2. *Institutional Microfinance Incentive Grants:* For sustainable microfinance institutions, USAID and MOP will jointly identify through a competitive procurement process, an institutional contractor to provide technical support to establish and manage an incentive grant program targeted at improving the ability of existing microenterprise institutions to reach financial sustainability by year five of their program-funded activity. The incentive grants program will support the improvement and implementation of microenterprise best practice methodologies and the adaptation of new global trends within the Jordanian context. The incentive grants program will assist NGOs to provide improved financial services to large numbers of people in need of better access to financial services. The institutional contractor will establish, in coordination with USAID and the Ministry of Planning, selection criteria for solicitation of proposals from local and international NGOs that are committed to provide financial services to microenterprise on a sustainable basis. USAID anticipates providing at least \$5 million for competitive grants during the life of this SOAG. The individual grants will typically exceed \$500,000 and are expected to support

operating expenses for program expansion, capitalized loan funds, specialized technical assistance, training, and commodity procurement.

3. *Microfinance Information Systems*: Most microfinance institutions do not have information systems that can rapidly indicate the status of portfolio performance. Short-term loans with multiple repayments are generally shown to be the most effective for microenterprises. Also, deposit services are needed to streamline transactions, thereby making the deposit funds immediately accessible. If the information systems within the organization do not reflect the immediate situation with any given loan, the loan can become problematic for the lender. USAID and the Ministry of Planning will work together with the designated contractor to design an intervention designed to help microenterprise organizations understand the value of an adequate information system and then assist in designing, developing, installing and managing such systems.

4. *Microfinance Assistance to Commercial Banks*: USAID believes that the most sustainable way to address many constraints in the development of micro- and small business finance is to fully engage formal financial institutions such as commercial banks. In particular, USAID will seek to increase the number of micro- and small-entrepreneurs utilizing the commercial banking system. Beyond identifying and placing "graduate" repeat borrowers from existing or planned microenterprise initiatives, a number of additional activities are either anticipated or currently under discussion. One approach is to engage top local bank management in order to secure a commitment to micro and small-entrepreneurs. A second is to use existing mechanisms to facilitate movement of high performing entrepreneurs into the formal finance sector. A third approach involves assisting banks directly in developing loan packages, credit cards, and savings instruments that make expanded commercial bank outreach to micro- and small entrepreneurs less costly and more profitable.

5. *Microfinance Donor Coordination*: A range of NGOs provide microenterprise credit services in Jordan. There is, however, only an informal exchange of experience among the NGOs themselves as well as among foreign and domestic experts. While the World Bank is providing the bulk of the money in this area, USAID, the lead donor in terms of its technical approach, will help coordinate at a technical level so that the "best practices" contributed by USAID can be adapted and applied by other donors and implementing organizations. Direct or indirect support for initiatives undertaken by other donors in support of this Strategic Objective such as the World Bank, UNDP, Peace Corps and others may also be appropriate. If USAID, working with the microenterprise coordinating unit described below, can make overall micro finance activities in Jordan more effective in terms of outreach and sustainability, access to financial services should also increase. This in turn should expand economic opportunities for Jordanians throughout the country.

6. *Microenterprise Coordination Unit*: USAID will coordinate USAID-funded microenterprise activities under this Intermediate Result with the newly created microenterprise coordination unit established by the GOJ. To encourage better coordination and cooperation among the microenterprise community in Jordan, a quarterly meeting chaired by the Minister of Planning or his/her designee will be held to monitor progress and provide direction on further developments in the sector.

7. *Business Services Activities*: USAID and the GOJ will jointly identify a US based institutional contractor and/or private voluntary organization to provide expertise to private small and medium enterprises in Jordan in the areas of Technology Transfer, Marketing, Quality Control, ISO Certification, and Management relevant to business development. Program design and development will be a joint effort between the Ministry of Industry and Trade and USAID. Activities will include technical assistance, training, and a small grants program aimed at making Jordanian small and medium enterprises more effective and competitive in the context of a global economy.

8. *Free Trade Zone (FTZ) and Qualified Industrial Zone (QIZ)*: USAID and the GOJ will jointly identify a U.S.- based contractor to carry out feasibility assessments for FTZ's and/or QIZ's and develop the physical infrastructure for such zones. The initial focus will be on the proposed Aqaba Free Port Special Economic Zone. USAID will also provide firm level assistance through the business services activity mentioned in item 7 above to enterprises in the FTZ's as well as the (QIZ's) in Jordan.

9. *Other Related Activities*: From time to time, other related activities aimed at further promoting and strengthening this Intermediate Result will be supported. Specific examples that fall within this category include the ongoing Peace Corps Special Project Assistance (SPA) program and a new youth entrepreneurship initiative patterned after the "Junior Achievement" model in the United States. Additional activities that strengthen business services and promote economic opportunities for poorer or underrepresented segments of Jordan's population will also be considered as appropriate.

10. *Program Development and Management Support*: This will include the provision of limited technical assistance (TA) related to the development and management of the business and financial services IR. This will entail the provision of expert advice and assistance on strategic planning, monitoring and evaluation under this IR, such as problem identification; data collection and analysis; and project/activity management. At a minimum, specific TA will include one U.S. Personal Services Contractor working in the USAID/Jordan Office of Economic Opportunities and Free Market Development Program Advisors working with public sector, private sector or non-government organizations.

B. More Effective Implementation of Policy Reforms (IR 5.2)

1. *Assistance to the Investment Promotion Corporation (IPC)*: Technical assistance to the IPC will support USAID and the government's efforts to eliminate bottlenecks that affect investment. The IPC is starting to make progress in this area, although additional support is still needed. Supporting IPC offers several advantages: it has proven to be an effective agency in bringing about improvements in the policy environment; it is legally empowered to work towards the streamlining of government procedures that affect investment; and its mandate and existing efforts are concentrated in areas which coincide with, and directly support USAID's Economic Growth Strategic Objective. USAID in coordination with the Ministry of Planning may also assist the IPC in developing, consistent with USAID policy and laws prohibiting support for activities that

would result in the loss of U.S. jobs, an investment promotion campaign aimed at attracting increased foreign investment in Jordan, including promotion of FTZ's and QIZ's.

2. *Other Technical Assistance:* USAID will make use of technical assistance and related training where it is requested by Jordanian partners and beneficiaries through the Ministry of Planning, and where it contributes to achievement of the Strategic Objective. This technical assistance may be both long and short term in nature, and will rely on both Jordanian and U.S. sources of expertise. At a minimum, technical assistance beyond that associated with the IPC (discussed above) will consist of survey work to show progress towards achievement of IR 5.2 and support to the Department of Customs in its implementation of policy reforms. Technical assistance and related training may be provided in a range of policy reform areas such as economic restructuring, privatization, competitiveness, tax reform, financial sector reform, capital markets development World Trade Organization (WTO) accession and Intellectual Property Rights enforcement, trade and investment reforms, and FTZ/QIZ reforms among others. If necessary, policy work related to identifying and removing barriers to effective management of sustainable microenterprise and small business lenders will also be supported.

3. *Non-Governmental Organizations (NGOs):* USAID, upon the request of the Ministry of Planning and other partners will support additional technical assistance in the areas of policy "supply" (e.g. transmission of ideas), and policy "demand" (e.g. collection and assessment of issues and ideas from a variety of business associations, trade associations, civic groups and other advocacy groups that have a special interest in achievement of the results in IR 5.2). USAID will also help these groups define the audience for a specific policy message, with a view toward engaging with that audience to further strengthen the constituency for policy reform. The audience for this USAID-funded support may be the GOJ, commercial banks or other private entities. The manner in which the NGO's engage their audience with USAID funding will consist of a variety of mechanisms, including informal or formal meetings, seminars, pamphlets, media messages and other initiatives. Specifically, this technical assistance package will result in the completion of several major privatization transactions, as well as targeted technical assistance related to the development of capital markets, modernization of the insurance industry and improved GOJ economic analysis capability.

4. *World Bank Technical Assistance Fund:* A technical assistance programs focused primarily on privatization will be developed and implemented in cooperation with the Ministry of Planning (MOP) and the World Bank. The program will provide continued support for the economic reform program which aims to increase private sector participation in investment and economic growth.

C. Improved Environment for Sustained Policy Reform (IR 5.3)

This Intermediate Result incorporates balance of payments and debt repayment support in the form of a cash transfer. It also includes a series of conditions precedent and covenants regarding actions which improve the business and commercial environment in Jordan, expand opportunities for private sector participation, promote policy reform, and advance Jordan's economic

restructuring concerns. Future cash transfers are contingent on the availability of funds. Such transfers will continue to be policy-based and will continue to include relevant conditions precedent and covenants aimed at supporting Jordan's economic efforts.

V. PROGRAM APPROACH

This program has been designed to allow flexible selection and modification of activities over time in order to best achieve the strategic objective and intermediate results identified above. The emphasis under this program is on achievement of agreed upon results, not simply completion of specific activities. Consequently, activities to be financed under this Agreement, such as institutional incentive grants, technical assistance, training, and research, have not been specified in detail in this Amplified Description.

Although the program offers significant flexibility in selecting suitable activities to be financed under this Agreement, to be eligible for financing hereunder any grant, technical assistance, training, research or other activities must (1) contribute to the strategic objective and intermediate results described above, (2) be supported by cost estimates that are reasonable and reasonably firm, and appropriate analysis and planning, including feasibility analyses, where appropriate, with regard to institutional, technical, financial, environmental social soundness, or other measures of feasibility, and (3) be likely to be completed within the timeframe and budget specified in the proposal.

Additional criteria for selection of activities will include customer demand, USAID comparative advantage, previous experience/ "lessons learned", sustainability, and cost sharing.

USAID will coordinate with the GOJ and other relevant parties prior to selection of activities for funding, as discussed above and using means appropriate under the circumstances, which may include consultation with the GOJ on the substance of proposed activities, approval of requests for proposals, review of solicited and/or unsolicited contract/grant proposals, selection of contractors/grantees, or other appropriate mechanisms.

USAID will enter into direct contracts and grants, as well as approve host-country contracting in limited circumstances, to support activities in support of the program. Such agreements will be in accordance with USAID acquisition regulations, USAID Directives/Handbooks, and other applicable laws, regulations and policy.

VI. MONITORING AND EVALUATION

USAID and the GOJ jointly agree to provide resources and information to insure an adequate level of monitoring and evaluating needed to assess progress towards achievement of the Strategic Objective and Intermediate Results.

"Performance audits" will be conducted at least annually, based on a range of indicators used to measure progress in achieving Intermediate Results. The annual USAID-generated "Results Review and Resource Request" (R4) represents a particularly useful mechanism for reviewing

progress and ensuring that activities are on track.

A performance monitoring plan and related performance data may be developed and agreed upon further in accordance with Article 2 and Section 7.2 of the Grant Agreement for the Strategic Objective ("SOAG") of which this Annex 1 is an integral part.

Financial audits of various activities and assistance instruments will be conducted in accordance with relevant standard provisions contained in Annex 2 of this agreement.

As determined during the course of implementation of this Agreement, USAID and the GOJ may from time to time jointly authorize an external evaluation of the progress and impact of the activities towards accomplishing the Strategic Objective and the Intermediate Results.

Each contracting/assistance instrument will include a performance-monitoring tool to permit USAID and the GOJ to evaluate progress towards the goals and objectives of the respective contract instrument.

VII. FINANCIAL PLAN

The Financial Plan, set forth on Attachment 1 to this Annex 1, entitled "Illustrative Strategic Objective Budget", may be revised in accordance with Sections 3.1(c)(1) and 7.2 of the Agreement without formal amendment to this Agreement.

(SOAG Amendment No. 8)

ANNEX 1, ATTACHMENT 1

ILLUSTRATIVE STRATEGIC OBJECTIVE BUDGET

SO: Increased Economic Opportunities for Jordanians

INTERMEDIATE RESULT	USAID FUNDING			LIFE OF SO
	PREVIOUS OBLIGATIONS	THIS AMENDMENT	TOTAL	
1. Increased Access to business services	26,158,883	0	26,158,883	45,000,000
2. More Effective Identification and Implementation of Policy Reforms	23,392,894	0	23,392,894	55,000,000
3. Improved Environment for Sustained Policy Reform	150,000,000	50,000,000	200,000,000	300,000,000
TOTAL	199,551,777	50,000,000	249,551,777	400,000,000